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C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 007119

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TAGS: [PREL](#) [PINR](#) [PGOV](#) [CH](#) [CU](#) [VE](#) [XM](#)
SUBJECT: A/S SHANNON LUNCH MEETING WITH DG ZENG ON
CHINA-LATIN AMERICA RELATIONS

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Classified By: Deputy Political Minister Counselor
Robert Griffiths. Reasons 1.4 (b/d).

Summary

¶1. (C) Chinese companies have not been spared from the political and economic turmoil in Venezuela, MFA Latin American and Caribbean Affairs Director General Zeng Gang told A/S Shannon during their April 14 working lunch. Despite the "severe protectionism" that has hurt the bottom line of PRC interests, Zeng said China will continue to build upon its relationship with Venezuela while encouraging Chavez to build better relations with the United States. A/S Shannon pointed out Venezuela's erratic, unreliable and disturbing behavior has caused the United States to halt sales of military equipment and oppose Venezuela's bid for a UNSC seat. Zeng showed interest in US investment and economic relations in Latin America, while lamenting that China has found the markets to be not as open as they had expected. Beijing has responded to increasing interest in Latin America by Japan, ROK and the EU by increasing its dialogue with those countries regarding the region. A/S Shannon invited Zeng to Washington DC for the next round of the Sub-Dialogue. End Summary.

¶2. (C) MFA Director General for Latin America Affairs Zeng Gang and A/S Shannon continued their April 14 morning discussions on Latin America over a working lunch.

Venezuela

¶3. (C) A/S Shannon briefed Zeng on the U.S.-Venezuela relationship, pointing out that Venezuela has a substantial economic relationship with the United States that one would not imagine by listening to the harsh political rhetoric coming out of Caracas. Venezuela's oil industry is tightly integrated with the U.S. economy; Venezuela owns refineries and a network of gas stations throughout the United States. Caracas controls the flow of its oil from the fields in Venezuela to the gas pumps in the United States. Venezuela sells 1.5 million barrels of oil per day to

the United States and has \$7 billion invested in the United States. Its trade surplus with the United States, as a percentage of trade, is the largest in Latin America.

14. (C) Zeng said political turmoil that has afflicted Venezuela is not good for Venezuela, the region or PRC-Venezuela relations. Zeng complained that China's projects in Venezuela were complicated by Venezuela's political situation. With the revival of Venezuela's economy, China-Venezuela trade links have begun to recover. Still, growing Venezuelan protectionism is a problem. Venezuela is forcing PRC companies, even those with long-established operations, to partner with local companies and establish joint ventures. Zeng also complained that PRC corporations have never enjoyed any "privileged and special treatment" from the Government of Venezuela, like others have. Nevertheless, Venezuela is an important and resource-rich country, and China and Venezuela have many areas of shared interest. Zeng said that China has advised and encouraged Chavez, as well as new Bolivian President Morales, to build better relations with the United States and countries in the region.

15. (C) A/S Shannon responded that the United States appreciates China's message to the two leaders. The United States wants to increase its cooperation with Venezuela in energy, counter-terrorism, counter-narcotic and commercial areas. However, each time the United States has reached out to Venezuela, it has found Chavez's government to be erratic and unreliable. He cited the recent attack on the U.S. Ambassador to Venezuela only two days after A/S Shannon had met with his Venezuelan counterpart. These actions, and others like the very-public Venezuelan military exercises premised on a U.S.

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invasion, are very disturbing to the U.S. Government.

16. (C) A/S Shannon said that because of Venezuela's continued disturbing and erratic behavior, the United States has been forced to take certain actions such as stopping sales of military equipment and opposing Venezuela's efforts to win a UNSC seat. A/S Shannon reinforced with Zeng that this is not U.S. hostility towards Venezuela but rather the result of Venezuelan policy towards the United States.

17. (C) Zeng stated that while China noted the U.S. request to not sell military equipment to Venezuela, PRC companies had already sold three radar systems to Venezuela. These are defensive in nature, not offensive weapons, and would help Venezuela's anti-drug efforts. China had complied with relevant international laws and norms in making the sale.

PRC Interest in U.S. Investment and Economic Relations

18. (C) Zeng asked about the trend of U.S. investment in Latin America, and whether it was still focused on manufacturing or had moved more into the service sector. A/S Shannon said investment has steadily increased, although not always consistently as investors reacted to changing market conditions in each country. While investment in manufacturing of autos and appliances continues, in the future investment will increasingly be in financial, insurance and telecommunication services.

Frustrations with Brazil

19. (C) Zeng lamented that Chinese investors had also

not found the Latin America markets as open as they had expected. Even a relatively rich country like Brazil insists on restricting the activities of foreign investors. A/S Shannon pointed out that Brazil has only recently become a trading nation, and that there is a split within the country between exporters favoring trade and those benefiting from the protected local companies. An FTAA among Latin American countries and the United States would not only open U.S.-Latin American markets, but would create more dynamic and beneficial trading relationships among Latin America economies themselves.

Dialogues on Latin America

¶10. (C) Zeng observed that more and more countries, such as Russia, Spain, Japan and South Korea, have their eye on Latin America. The MFA is working to establish mechanisms for regular dialogues with these countries. Zeng confirmed that there would be a trilateral dialogue on Latin America between China, Japan and the ROK later in April. Latin American also came up during Spanish PM Zapatero's recent discussions in Beijing and during a PRC-Spain forum last month. Spain wants to enhance its dialogue with Beijing on Latin America by starting a China-Spain-Latin America "trilateral" dialogue. Zeng said China is open to any form of consultations and dialogues with Latin American and non-Latin American countries.

¶11. (C) Zeng asked A/S Shannon if the United States engaged in formal dialogues on Latin America with other countries, like Japan, the ROK and the EU. A/S Shannon reported that there have been 25 senior-level meetings with Japan on Latin America, while his recent trip to Seoul represented the first dialogue with the ROK. The United States has regular consultations with the EU and policy planning talks with Canada and Brazil.

Growth in PRC-Latin America Relations

¶12. (C) Zeng said that there were only one or two Latin America countries that recognized the PRC in the late 1970's when he was first posted to Latin America.

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Between 1977 and 1979, the King of Spain was the only leader of a Spanish-speaking country to visit China, but last year alone Beijing welcomed the presidents of Colombia and Chile, the vice-president of Peru, four prime Ministers and nine foreign ministers and vice foreign ministers from Latin America.

Fruitful Results/Regular Meetings Proposed

¶13. (C) Characterizing this first sub-dialogue on Latin American affairs as candid, friendly, transparent and constructive, Zeng said the morning and lunch time conversations allowed both sides to enhance their mutual understanding of each other's policy objectives and areas of major concern. These fruitful discussions will help prevent unwise policy move that could hurt mutual interests. A/S Shannon agreed, pointing out that the wide-ranging discussions indicated a large potential for deepening U.S.-China relations. He said he looks forward to hosting Zeng in Washington DC for the next round of talks.

Participants

¶14. (U) United States:

WHA Assistant Secretary Thomas Shannon
WHA Senior Executive Assistant John Creamer
Deputy Political Minister Counselor
Embassy Notetaker
Interpreter
Embassy Control Officer

China:

MFA Latin American and Caribbean Affairs DG Zeng Gang
MFA Counselor Wei Qiang
MFA Division Director Liang Yu
MFA Deputy Division Director Fu Xinrong
MFA Third Secretary Nie Quan
Interpreter

15. (U) The delegation cleared this cable.
RANDT